USDA

International Agricultural Trade

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Weekly Market Report: Dairy, Livestock, & Poultry

Mercosur Countries are Beefing up Exports: Focus on Argentina and Uruguay

Summary

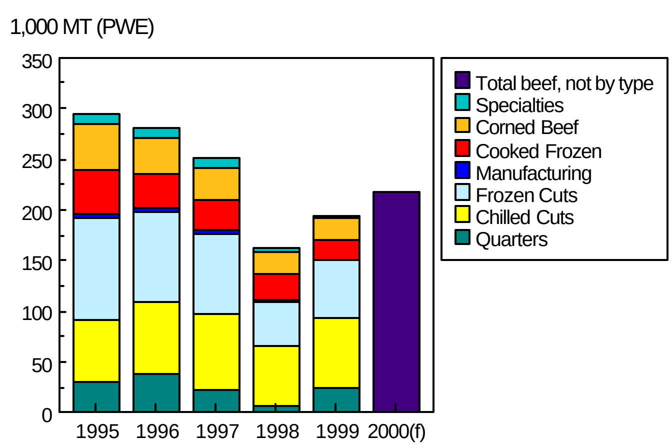
Bolstered by their success in eradicating Foot and Mouth Disease (FMD), Argentina and Uruguay are looking to compete in new markets for fresh-chilled and frozen beef in Asia and North America, the United States' most important markets. Future success will depend on several factors, including the support of a strong export promotion plan and their ability to make necessary structural adjustments in their beef industries to meet foreign market needs.

Sustained Export Growth Will Depend on Certain Economic and Production Factors

Argentina and Uruguay are making strides toward a strong export recovery. Following a downward trend since 1995, Argentine beef exports rebounded in 1999, growing 15 percent to 335,000 tons (CWE) as prices fell sharply. Uruguayan exports declined last year, but are expected to rebound in 2000 due largely to very competitive prices.

Continued strength in the longer term will depend on several factors. Maintaining the US$1=P$1 parity is making Argentine beef less competitive on world markets as the U.S. dollar stays strong; this is particularly true in the aftermath of the January 1999 Brazilian currency devaluation. The Argentine industry also suffers from high interest rates and little access to affordable credit.

Argentine Beef Exports of Quarters, Chilled, and Frozen Cuts Grew in 1999



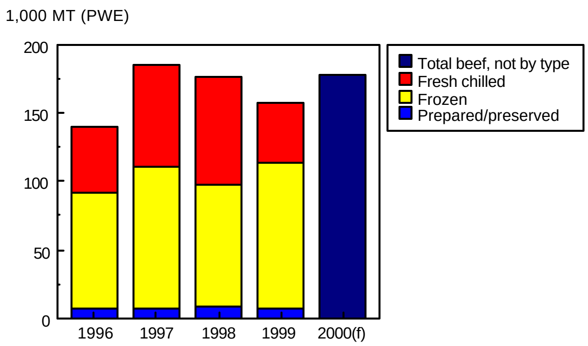
Source: FAS attaché reports and SAGPyA, Livestock Market News

A major disadvantage for Argentine and Uruguayan packers vis-a-vis U.S. exporters is the inability to produce large quantities of particular cuts; importers in high value markets want large quantities of tenderloin, striploin, rump, and ribeye. In Argentina and Uruguay, domestic beef is virtually all traded in whole carcasses, leaving the exporter with extra cuts without a buyer. Moreover, the export market typically wants cuts from cattle with a larger frame than is typically found in Argentina or Uruguay.

Argentines Aiming to Build On Export Recovery Momentum with FMD-Free Status

Argentine export levels in 1999 revealed a healthy export recovery. Over a third of the shipments last year were chilled cuts, and these accounted for over 50 percent of the export value. The top markets were the European Union, the United States, and Chile, which together comprised about three-fourths of the total. Argentina filled and even exceeded the 20,000-ton U.S. import quota for fresh, chilled, and frozen beef in 1999. Of Argentina's 20,000-ton fresh, chilled, and frozen beef quota in the United States, approximately 1,500 tons are high value cuts earning $5,000/ton. The Argentines are keen on increasing their U.S. share of high-value beef. Argentine beef exports are expected to increase 11 percent in 2000.

Uruguayan Frozen Beef Exports Expanded in 1999, Chilled Exports Cooled Down



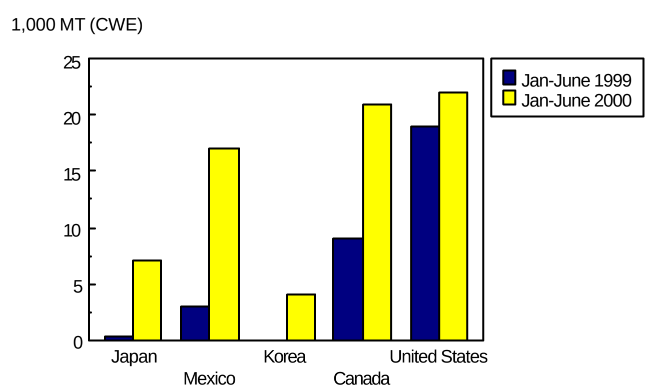
Source: Instituto Nacional de Carnes, Uruguay
2000 forecast based on USDA projection of a 15 percent increase.

Argentina became FMD-free without vaccination for one year as of April 2000. Argentine exporters are hoping to enter the Asian markets (Japan, Korea), as well as Mexico, with fresh-chilled and frozen beef. Some Argentine beef analysts are predicting entry into these markets in the second half of 2000, while others say it will not yet happen this year. A marketing strategy and contacts will need to be developed. Argentina will have to do what other successful exporting nations have done–develop an export promotion strategy to fit their customers' needs. Last year the Agriculture and Livestock Industries Corporation of Japan opened an office in Buenos Aires to develop trade ties in Argentina and elsewhere in South America.

Uruguayan Beef Exports To Recover in 2000 on Competitive Prices

Uruguayan beef exports in 1999 fell 5 percent to 244,000 tons (CWE). The primary reason for the decline was the 1999 recession in Brazil, Argentina, and Chile, prompted by the Brazilian devaluation in January. Any downturn in exports is immediately felt in Uruguay, where about 52 percent of production is exported. Uruguay, too, filled the 20,000 ton U.S. fresh, chilled, and frozen beef quota last year, mostly with manufacturing grade beef.

Uruguayan Beef Exports to top US Markets Soared in First Half of 2000



Source: Instituto Nacional de Carnes, Uruguay

From January through June of 2000, Uruguayan beef exports have expanded at a very rapid pace–up 32 percent. Of particular interest is their expansion into new markets, including Japan, Mexico, Korea, and Canada–top markets for U.S. beef exports. The Uruguayans have been actively promoting their products into new markets and working to meet foreign export health requirements. The recent export recovery also reflects increased beef production and falling prices. Cattlemen were forced to send their cattle to slaughter as drought conditions persisted from September 1999 through March 2000. The rains have since returned, and slaughter has returned to more normal levels. Uruguay is expected to remain competitive in 2000 given their relatively low beef price. Tightening beef supplies in North America, rising U.S. beef prices, and expected lower U.S. beef exports in 2001 may provide competitive opportunities for Uruguayan exports next year.

Structural Adjustments and Export Promotions Key to Future Success

The Argentines and Uruguayans are marketing their beef as pasture-based, natural, and, in some cases, organic. Costs of production are low in both countries. The cattle are generally British cross-breeds, Angus predominantly in Argentina, Hereford in Uruguay. The Argentines are aiming to increasingly supply the value-added export market such as prepared beef dishes and meals. Diversification of their cattle production is another strategy used for meeting export market demands. Feedlot production began in Argentina only 5-6 years ago and there are currently about 150 commercial feedlots (representing about 1.3-1.5 million head). Growth promoting hormones are approved for cattle production in Argentina.

Argentina is trying to create a Beef Promotion Institute, similar to our checkoff program. It would collect $13 million from cattle producers and slaughter plants alike, and needs to be voted into law by the new government. However, there is much debate about who would control the funds and who should make the largest contributions to it. The government favors making the exporters who are allocated the 28,000 ton EU quota pay a larger share. Uruguay has a better developed beef export promotion strategy and has been actively promoting its beef in new markets. Relatively low beef prices in both countries will look attractive on world markets this year, providing a boost to the exports of Argentina and Uruguay.

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